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## **ECONOMIC INTELLIGENCE REPORT**

# **SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JULY - 31 DECEMBER 1961**

**EIC R14-S12**

**28 February 1962**

**ECONOMIC INTELLIGENCE COMMITTEE**

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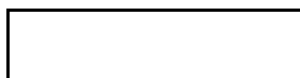
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## **ECONOMIC INTELLIGENCE REPORT**

# **SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JULY - 31 DECEMBER 1961**

**EIC R14-S12**

**ECONOMIC INTELLIGENCE COMMITTEE**



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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in the EIC-R14 series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series, under the same title.

This report, covering the 6 months from 1 July through 31 December 1961, constitutes the twelfth periodic supplement to EIC-R14, the background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries. This report was prepared by a Working Group of the Economic Intelligence Committee, including representatives of the Departments of State, the Army, the Navy, the Air Force, Commerce, and Agriculture; the Agency for International Development; the Office of the Secretary of Defense; the National Security Agency; and the Central Intelligence Agency. It was approved by the Economic Intelligence Committee on 13 February 1962.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Afghanistan, Cyprus, Greece, Pakistan, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

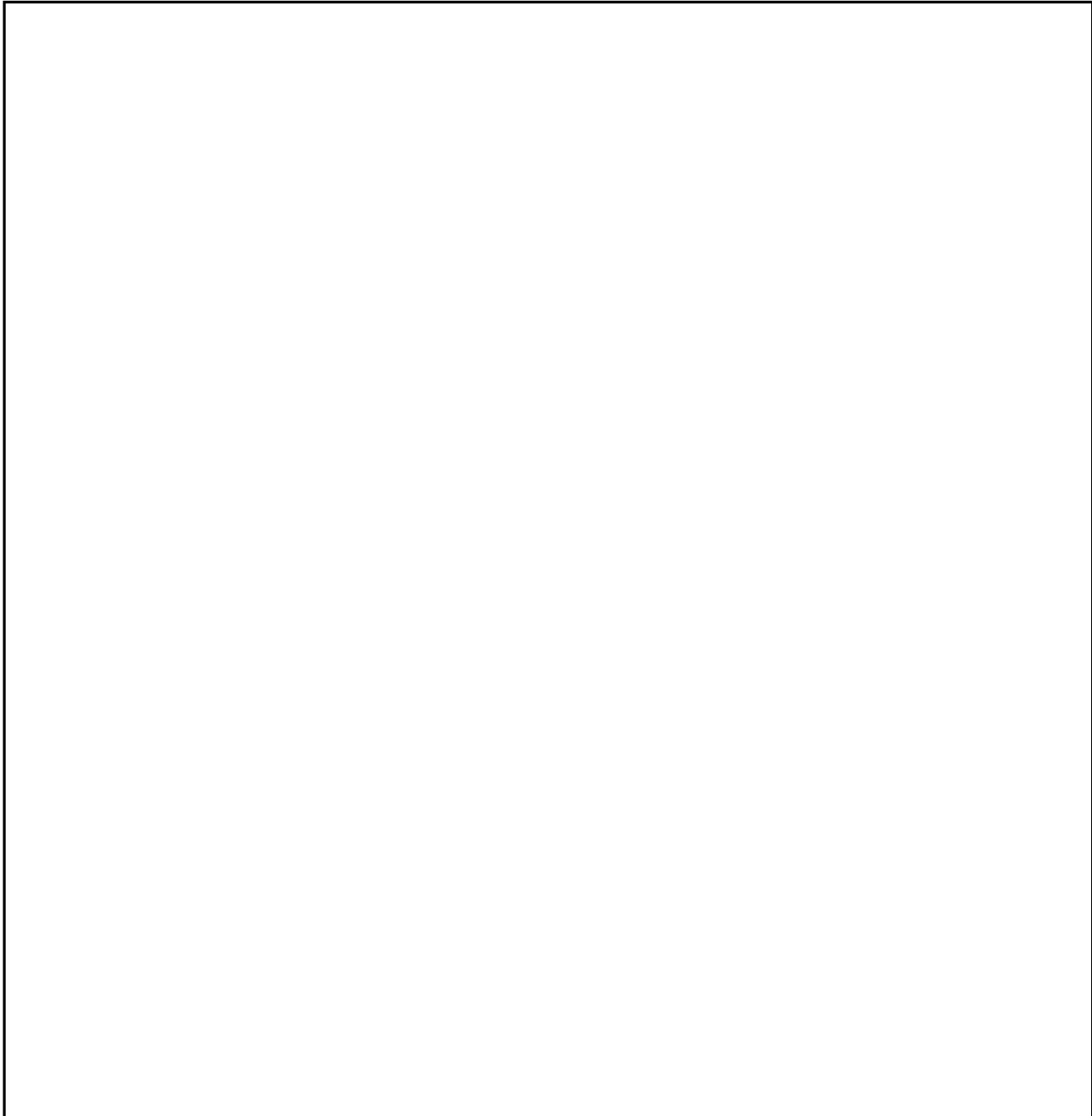
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SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS  
1 JULY - 31 DECEMBER 1961

Summary

Patterns and Prospects

In 1961, Bloc economic relations with underdeveloped countries generally followed the main patterns observed in earlier years: a high level of new economic aid, an increase in drawings on developmental credits, an expansion of military assistance, a sizable influx of Bloc technical personnel, and a growth in the number of matriculants at Bloc training facilities. Although Cuba remained the focal point in Latin America, a number of countries in Africa were accorded increased attention, and activities in the Middle East and Asia were intensified.

Afghanistan was the principal recipient of new Bloc economic aid. The USSR extended \$196 million\* in two lines of credit for projects included in Afghanistan's Second Five Year Plan (1962-67). As a reflection of the special status that Moscow has accorded Kabul, a major part of the new economic aid will carry no interest charge and will be repayable over half a century. Although similar terms were applied to a relatively small credit extended in 1957 for petroleum exploration in northern Afghanistan, no other underdeveloped country has received a Soviet credit carrying such favorable terms.

The USSR responded with unqualified support for Afghanistan to the crisis in Afghan-Pakistani relations that culminated in the severance of diplomatic relations between Afghanistan and Pakistan last September. Soviet purchases of a portion of Afghanistan's fresh fruit crop (normally sold to Pakistan and India) and a supplementary transit agreement that will permit all items in Afghanistan's trade to transit the USSR at rates competitive with the route via Pakistan were decisive Soviet efforts to ameliorate difficulties arising from the closing of the Pakistani border.

Considerable progress was made in construction work on projects financed under credits extended in earlier years. With some exceptions, such as the Bhilai steel mill, expenditures for projects that are both large and unique have not weighed heavily in past drawings

\* Unless otherwise indicated, all dollar values in this report are in terms of US dollars.

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on major lines of credit. By 1961, however, planning and survey work on a number of such projects had been completed and construction work started. Whereas in earlier years drawings for these projects were confined largely to payment for technical services, in 1961 substantial drawings also were made to cover the foreign exchange costs of construction materials and equipment. As a result, drawings on Bloc economic credits and grants in 1961 were considerably more than in any previous year.

The USSR pursued its arms diplomacy with vigor throughout most of 1961. Moscow responded to urgent appeals from several of its established customers for large quantities of arms, including some recent-generation weapons. Although the Kremlin repeatedly has evidenced strong displeasure with the suppression of local Communist groups in Iraq and the United Arab Republic (UAR), its irritation did not prevent the conclusion of new military aid pacts with Baghdad and Cairo. Nor did the anti-Communist orientation of the Indonesian army deter Moscow from including substantial quantities of land armaments in an expanded military aid accord with Djakarta. The foreign policies of Kassem, Nasser, and Sukarno -- particularly as concerns the Kuwait, Israel, and West New Guinea issues -- served to elicit positive expressions of Soviet support, of which the new military aid agreements are important but by no means the sole elements.

#### Economic and Military Aid

The Bloc extended more than \$470 million in economic aid to underdeveloped countries during the last 6 months of 1961, almost all in the form of credits. In 1961, new economic aid totaled more than \$980 million, about \$200 million less than in 1960 but more than in any other year. From the inception of its economic aid program in 1954 to the end of 1961, the Bloc has extended economic credits and grants totaling nearly \$4.6 billion -- 95 percent in the form of credits. Of all Bloc economic aid extended by the close of 1961, almost three-fourths was provided by the USSR and a like proportion was for countries in the Middle East and Asia.

About 70 percent of all Bloc economic aid extended by the end of the year had been obligated for specific purposes. Of the total obligated by the end of 1961, more than one-half has been channeled into projects that will contribute directly to an expansion of industry; almost one-fourth has been directed into activities that will boost the output of agriculture, energy, and minerals; and approximately one-seventh has been allocated for transportation and communications.

Although the terms of Bloc economic credits vary from case to case, most of them carry low interest rates and are long term. Of all Bloc

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economic credits extended by the close of 1961, 85 percent provide for repayment periods of 10 years or more.

Drawings on economic credits and grants are estimated to be about \$180 million for the last 6 months of 1961 and about \$305 million for the entire year. The level of drawings in 1961 was 50 percent higher than for 1958, the previous record year, and more than twice the annual average for the period 1956-60. By the end of 1961, about 23 percent of cumulative Bloc credits and grants extended had been drawn. This proportion of expenditure, in relation to cumulative commitments, is about the same as the average for the last 4 years.

One major new military aid agreement -- between the USSR and Iraq -- was concluded in the second half of 1961. Deliveries under this accord began in the closing months of the year. In addition, substantial deliveries were made under agreements signed earlier in 1961 by the USSR with Indonesia and the UAR.

By the end of 1961 the Bloc had entered into agreements to provide 12 underdeveloped countries with more than \$2.2 billion worth of military supplies and equipment. When known downpayments are deducted, the amount of financial aid extended by the Bloc for military items alone since September 1955 totals almost \$2.1 billion. When discounts also are deducted, the credit financing provided amounts to nearly \$1.6 billion.

#### Technical Assistance

During the last 6 months, about 10,300 Bloc technicians of all types were present in underdeveloped countries -- an increase of 5 percent above the first half of 1961. The number of economic technicians increased 3 percent and of military technicians almost 18 percent.

By the end of 1961, about 21,600 individuals had been or were being trained at academic, technical, or military training centers in the Bloc. This figure represents an increase of 45 percent above the number at the end of June 1961. The most rapid growth continues to be in the number of academic students, who now constitute the largest of the three categories.

Almost 8,500 Bloc technicians were engaged in economic activity on a contract basis in 27 underdeveloped countries during the last half of 1961. Declines in Yemen, Cambodia, and India were more than offset by increases elsewhere. The largest gains were registered in Cuba, Guinea, Indonesia, Iraq, Mali, and the UAR.

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More than 1,800 military specialists were present in 10 underdeveloped countries. The largest increases occurred in the UAR, Cuba, Indonesia, and Iraq. Mali accepted 15 Soviet military technicians, the first Bloc military technicians for this West African country.

The number of nationals from underdeveloped countries who have undertaken instruction, both academic and technical, in the Bloc rose by about 4,800 during the last half of 1961. Large increases in the number undertaking academic training were registered for Cuba, Iraq, the Somali Republic, and Indonesia. In addition to the academic students, about 2,000 new arrivals enrolled in technical training courses.

Since early 1956, nearly 14,400 nationals from underdeveloped countries have enrolled at Bloc universities and technical training facilities. More than one-half of these nationals have pursued academic programs, and the remainder have engaged in studies of a technical nature. Of the 47 underdeveloped countries participating in these nonmilitary programs, 5 countries -- Cuba, India, Indonesia, Iraq, and the UAR -- account for about 70 percent of the total number of students and trainees sent to the Bloc.

Approximately 1,950 new trainees undertook military training in the Bloc during the last 6 months of 1961. Since 1955, about 7,225 military trainees from underdeveloped countries have undertaken courses of instruction in the Bloc, mainly in the USSR, Poland, and Czechoslovakia. Indonesia provided more than 40 percent of the total, and the UAR, Afghanistan, Syria, and Iraq accounted for most of the remainder.

### Trade

During the first 6 months of 1961 the value of Bloc trade with underdeveloped countries was \$1.6 billion, 15 percent above the level for the comparable period in 1960. At an annual rate, however, trade in the first 6 months of 1961 was only 9 percent above the level recorded for all of 1960. The increase achieved is the direct result of a substantial growth in trade with Cuba, which more than offset declines in trade with all other areas. In the first half of 1961 the Soviet share in Bloc trade with underdeveloped countries increased and that of the European Satellites and Communist China declined.

Although the trends were not uniform for all countries and commodities, the decline in the value of Bloc trade with most underdeveloped countries probably was due more to price changes than to a decline in the volume of commodities exchanged. Average prices of agricultural products in world trade, which had risen during 1959 and the early part of 1960, fell somewhat during the second half of the year. This decline

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also carried over into the first half of 1961. The price declines were particularly significant for some of the major commodities imported by the Bloc from the underdeveloped countries -- for example, cocoa, cotton, tobacco, and rubber.

The commodity composition of Bloc trade with underdeveloped countries in 1960 changed little from 1959. There was a significant shift, however, within the foodstuffs category. Bloc imports were dominated by cotton and rubber, which together accounted for 36 percent of total imports from underdeveloped countries. Foodstuffs, primarily sugar, coffee, and cocoa, comprised nearly 20 percent, and wool, hides and skins, and iron ore account for most of the remainder.

Among Bloc exports the share represented by manufactured goods and machinery and transportation equipment continued to increase. These categories accounted for 63 percent of Bloc exports to underdeveloped countries in 1960, compared with 58 percent in 1959. Petroleum and petroleum products and chemicals continued to comprise an important part of Bloc exports in 1960, but exports of grains dropped sharply.

#### Latin America

During the latter half of 1961, policies of Latin American countries with regard to economic relations with the Sino-Soviet Bloc were generally characterized by an attitude of "wait and see." Expectations created by President Kennedy's "Alliance for Progress" were rising, and hopes for economic assistance from the United States helped to discourage overt flirtation with the Bloc. New economic credits from the Bloc were few, and trade with most countries of Latin America was at lower levels in 1961 than during the same period in 1960.

The exception to this general rule was, of course, Cuba. Its political and economic relations with the Bloc continued to increase dramatically. Cuba's economy continued its reorientation toward the Bloc, and its political isolation in the hemisphere was increased. Exchanges of visitors, both official and informal, were numerous and frequent. Trade turnover with the Bloc rose to about \$850 million in 1961, and Bloc purchases of Cuban sugar amounted to 80 percent of Cuba's total sugar exports. By the end of the year, Bloc economic credits to Cuba amounted to \$357 million. Although construction activities related to projects under these agreements have not been extensive, shipments of raw materials and foodstuffs and the presence of large numbers of technicians have materially aided the Cuban economy.

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Elsewhere in Latin America there was a general tendency to reject Bloc offers of assistance, and no major economic aid agreements were concluded. The availability to most countries of traditional Western markets for most of their export products this year decreased the pressure to explore new sales possibilities in Bloc markets. Except for the Quadros government in Brazil, the regional trend toward multi-lateral trade policies deterred the signing of new trade and payments agreements with the Bloc.

Among Bloc countries, Czechoslovakia was the most active in seeking to expand economic activities in Latin America. Indeed, for many years Czechoslovakia has been the Bloc's chief commercial contact with the area. The respect that the Czechoslovaks continue to enjoy as businessmen is an important asset to their efforts to expand commercial relations with Latin American countries. Czechoslovak technicians apparently are viewed with less suspicion than those from other Bloc countries, who are thought to be more preoccupied with propaganda and subversive activities. There were some indications, notably in Bolivia and Brazil, that Czechoslovak overtures were being aimed increasingly at local organizations such as labor syndicates and municipal governments. Their "people-to-people" approach may be calculated to increase receptivity among the Latin American people toward expanding economic dealings with Czechoslovakia.

Brazil, up to the time of President Quadros' resignation late in August 1961, was actively engaged in expanding its economic relations with the Bloc. Important commercial missions were dispatched to Bloc countries -- one in April visited the European Satellites and the USSR, and another in August traveled to Communist China. A number of trade agreements and protocols were concluded as a result of these missions, and government pronouncements reflected an anticipation of broadly expanded markets for Brazilian products.

After Quadros' resignation, however, the tempo of Brazilian interest in Bloc relations slowed considerably. Strong pressures were brought to bear on the administration of President Goulart to curb the trend toward increased contacts, and the numerous trade agreements concluded during the summer had not been ratified by the end of 1961. Diplomatic relations with the USSR were resumed, however, and an interbank payments agreement with Communist China was approved by the Goulart government.

In Bolivia the Soviet offer of \$150 million in economic credits was hotly debated, and President Paz was under increasing pressure to begin negotiations with the USSR for its use. Meanwhile, the government gave final approval to negotiate an offer by Czechoslovakia to construct an antimony smelter in Oruro; by the end of 1961, however, an agreement had not been concluded. Consideration was being given to several other Czechoslovak proposals, including a copper smelter and a sugar mill.

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Sporadic interest shown by the USSR in Chilean copper touched a sensitive nerve in that country, but negotiations have so far failed to produce a formula satisfactory to both sides, and, as in Bolivia, the real commercial progress was made by Czechoslovakia.

Contacts with the Bloc by Argentina and Uruguay continued to decline in 1961. Both countries took steps to limit the size and activities of Bloc missions within their borders and to control the influence of local Communist organizations. The proportion of each country's trade with the Bloc remained low, although the Argentine Government officially encouraged the search for new export markets in Bloc countries. Interest in Uruguayan-Bloc trade diminished, largely as a result of improvements in Uruguay's trade position with traditional US and Western European partners.

#### Middle East

During the last half of 1961, Bloc economic activity in the Middle East was highlighted by a major new aid agreement with Afghanistan. The fulfillment of economic and military commitments to the UAR continued in spite of a marked deterioration in political relations that accelerated following Syria's successful revolt against Nasser late in September. Bloc political relations with Iraq improved.

Rapid and effective exploitation of Afghanistan's break in diplomatic relations with Pakistan (together with such developments as a large new Soviet credit; new Bloc-Afghan scientific, technical, and cultural exchange agreements; and expanded Soviet military assistance to the Afghan army) provided the Bloc with some of its most definite economic offensive achievements during 1961. Shortly after the Afghan-Pakistani frontier was closed to all trade in September, the USSR purchased a large part of Afghanistan's important fresh fruit crop. The USSR also announced measures to facilitate the transit of Afghan trade through Soviet territory at subsidized rates. These measures were combined with strong Soviet propaganda and political support for Afghanistan on the Pushtunistan issue. In October a new Soviet economic assistance agreement was signed that provided two credits totaling \$196 million under favorable terms. The new credits raised the total of Soviet economic aid to that country since 1954 to more than \$400 million.

The USSR continued to deliver equipment, including T-54 tanks, under its military aid program in Afghanistan. Long-term training of Afghan military cadets in the USSR increased, and a number of high-ranking Soviet military advisers arrived following a visit by Soviet Marshal Sokolovskiy during October. The implementation of a number of cultural and scientific exchange agreements resulted in a considerable number of cultural, scientific, educational, and athletic exchanges

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during the latter part of 1961, including a reported Soviet offer of about 500 scholarships for 3-year and 4-year courses in Russian-language study in the USSR. Other recent developments have included a continued high level of activity by Soviet experts in preparing the Afghan Second Five Year Plan, a Soviet-Afghan agreement on a number of important economic development projects in northern Afghanistan, the Soviet presentation of an atomic reactor to the Afghan Government, and a Czechoslovak agreement to construct and equip an arms factory near Kabul.

The bitter exchanges between Moscow and Cairo that began in May, following Khrushchev's disparaging remarks to a UAR delegation then visiting the USSR, caused a rift between the two countries that continued through the rest of the year. Soviet charges that the UAR was discriminating against Syrian and Egyptian Communist Parties and failing to properly acclaim Bloc economic aid projects were countered by Cairo's claim that local Communists were agents of the USSR and allegations that Moscow was dissatisfied with the UAR's policies of independence and neutrality. Moscow's precipitate recognition of Syria further exacerbated UAR-Soviet relations. In spite of these irritants the USSR continued to provide important economic assistance to the UAR for the construction of the Aswan High Dam and other projects and also continued to deliver arms and military equipment. No new contracts are known to have been signed for industrial projects included in the 1958 credit agreement, but it is estimated that about \$50 million of the \$100 million credit for the first stage of the Aswan High Dam had been contracted. Although progress on the dam was slightly behind schedule, it was anticipated that it could still be completed on time. Trade between the UAR and the Bloc declined slightly during the first half of 1961 compared with the comparable period for 1960. This decline, however, reflects a decrease in cotton prices rather than a drop in the volume of cotton exported to the Bloc.

On 28 September a Syrian army coup dissolved Syria's union with Egypt, and only a few hours later the USSR became the first major power to recognize an independent Syria. No new credits were extended to Syria by the Bloc during 1961, and in the latter half of the year only one new project was begun by a Bloc country -- work in connection with the Ghab reclamation project (in the Orontes Valley) that was awarded to Bulgaria. It is estimated that during the last 6 months of 1961 there were 415 Soviet Bloc economic and 200 military technicians in Syria. The volume of Syria's imports from the Bloc declined slightly during the first 8 months of 1961, but the Bloc continued to be a major market for Syria's cotton, taking 40 percent of all cotton exported during the 1960/61 season. As the year ended it appeared that, in spite of manifestations of more favorable relations with the West, Syria would continue to maintain strong economic relations with the Bloc,

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both to sustain its announced "neutral" position and also as a result of Bloc entrenchment as its sole supplier of arms.

The Bloc's influence in Iraq became stronger during the last half of 1961 as a result of such developments as Soviet support for Iraq's claim to Kuwait, Iraq's dispute with the Western oil firms, and the near-completion of Iraq's changeover to Soviet military materiel. In consequence, Kassem became more lenient toward local Communists and awarded development projects to the Soviet Bloc against the better judgment of his subordinates. Although no additional credits for economic assistance were extended to Iraq by any Soviet Bloc country during 1961, a \$50 million arms agreement was obtained from the USSR by an Iraqi mission that visited Moscow late in the year. Work on Bloc economic development projects in Iraq continued at a slow pace, with only one project, a radiobroadcasting station, completed during the period under review. Bloc efforts to speed up implementation resulted in an increase in the number of Bloc technicians in Iraq during the last few months of the year. Iraqi imports from the Bloc during 1961 are expected to have risen, mainly as a result of the increased exports of machinery and equipment from Bloc countries. Iraqi exports to the Bloc remain small.

Any limited gains that the USSR may have achieved in Pakistan during the first several months of 1961 through overtures seeking to exploit Pakistani neutralist sentiment appear to have been largely negated during recent months. US reassurance to President Ayub during his visit to Washington in July and Soviet support for Afghanistan on the Pushtunistan issue and support for India over Kashmir, together with the resumption of Soviet nuclear testing and Soviet criticism of Pakistan as an example of a colonialist-dominated state, have all resulted in disillusionment and resentment regarding Soviet objectives. No new Bloc aid has been extended. Cultural exchanges have been few, and there was a slight decline in the volume of trade recorded during 1961. The arrival of 25 Soviet petroleum technicians to begin oil exploration activities under the \$30 million agreement that was concluded with the USSR in the spring constituted the Bloc's only major economic activity during the period under review.

In Yemen the Bloc continued to maintain a considerable degree of influence, especially in view of traditional Yemeni antipathy toward the British and other Western elements and because of the continued success of the Bloc in portraying itself as a generous and disinterested benefactor of the Yemeni people. No new credits were extended from the Bloc to Yemen during 1961. In August the USSR and Yemen initialed an agreement for the construction of the Hudaydah-Ta'izz road, but no final agreement has yet been reported. Nor have final agreements been announced on other Soviet aid offers, including a proposal for Aeroflot

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assistance in the organization of a civil airline. At the end of November the Chinese Communists claimed to have completed the asphalt-ing of the Hydaydah-San'a road and also were reported to have offered to initiate a cotton-raising scheme to supply cotton for a textile plant they are scheduled to build at San'a in 1962. During the latter part of 1961 the number of Bloc technicians in Yemen declined to about 640, of which about 500 were Chinese Communists. Soviet-Yemeni trade also declined, notably the barter of Yemeni coffee for Soviet sugar. The decline in Soviet trade was offset by increases in Yemeni trade with the Satellites, and in general Yemeni trade continued to be oriented toward the Bloc.

#### Africa

During the second half of 1961 the Bloc negotiated an economic aid agreement with Sudan for the first time and expanded aid and trade agreements with a number of other African countries, most notably Ghana. On the other hand, a substantial Bloc offer was rejected by the Congo (Leopoldville). Furthermore, Bloc relations with Guinea, where there is the greatest concentration of tangible Communist aid on the African continent outside of the UAR, became snarled by Guinean charges of Bloc involvement in an alleged local plot against the government -- Guinea ordered the Soviet Ambassador out of the country, and early in 1962 Soviet Deputy Premier Mikoyan flew to Conakry to smooth over the situation.

Sudan accepted a \$22 million Soviet credit, partly as a means of demonstrating its professed neutralism, but it continued to rely principally on the West for foreign help in financing economic development. Ethiopia and the USSR finally agreed on the construction of a \$12 million oil refinery, to be financed under a \$100 million Soviet credit extended in 1959, of which only about \$2 million had been drawn. Tunisia, made receptive to Bloc overtures by the frustration of its military skirmishes against the French-held naval base of Bizerte, accepted \$38 million worth of new Bloc credits, but it continues to rely principally on the United States for foreign economic assistance.

Ghana received \$93 million in new Bloc credits, which President Nkrumah had solicited during an extended visit to Communist capitals in the summer of 1961; and even more credits may have been negotiated during the period but not announced specifically. With a total of \$182.1 million in identifiable Bloc credits, during the last 6 months Ghana far exceeded Guinea as the major beneficiary of Bloc aid commitments in Africa.

Mali, which received substantial Bloc credits during the first half of 1961, got only \$7.5 million in new credits during the second half. The Somali Republic, also a major earlier recipient, got no new credits.

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Trade with the Bloc continued to grow, but there were no major shifts, except for an erratic drop in Ghanaian exports to the Bloc -- a situation which will subsequently be regulated by long-term Soviet commitments (to purchase cocoa) that were negotiated during the second half of 1961. Bloc shipments of military items continued at a substantial level, notably to Morocco for transshipment to the Algerian rebels.

### Asia

During the last 6 months of 1961, political and economic instabilities in a number of Asian countries continued to provide the Bloc with opportunities for economic advances, especially in Nepal and Indonesia.

India's political, cultural, and economic relations with the USSR and its European Satellites continued to grow during the second half of 1961, whereas relations with Communist China continued to deteriorate. Czechoslovakia was the only Bloc country to extend additional aid during the period under review, and there was little change in the volume and character of Bloc trade, but considerable progress was made on project commitments. A potentially sensitive aspect of the Bloc economic offensive in India continued to be the Soviet penetration of India's petroleum and aircraft industries. In addition, India concluded agreements for cooperation in the peaceful uses of nuclear energy with the USSR and Hungary. Several project contracts, dealing principally with India's heavy machinery industry, were signed with Czechoslovakia, Hungary, East Germany, and Poland under existing basic aid agreements.

The most significant event in Burma's relations with the Sino-Soviet Bloc during the last half of 1961 was the signing in December of a protocol committing for project use the \$84 million Chinese Communist credit of January 1961. The three Soviet "gift" projects were formally turned over to the Burmese Government in July. There is evidence of increased Bloc interest in offering scholarships to Burmese students. Efforts were exerted to reduce Bloc clearing account deficits.

Political unrest in Nepal and the willingness of King Mahendra to regard Bloc aid as a substitute for financial reform have made this country an inviting target for Bloc economic offers. Grants, primarily from Communist China, amounting to \$55 million have been extended to Nepal, nearly \$14 million during the last 6 months of 1961. A new grant from Communist China is for the construction of a motor road. Agreement was reached also on construction contracts for a number of other projects under earlier grants. Nepal had previously obtained considerable local currency assistance from Communist China, and the USSR has now agreed to provide about \$4 million to cover the local costs of its aid projects.

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Severe domestic unrest has led government officials in Ceylon to intensify efforts to implement Bloc aid programs and at the same time accelerate efforts to establish state ownership of enterprise. No new Bloc aid has been received, but several implementation contracts on earlier credits were signed. Several projects, including a rolling mill, a tire factory, and a textile mill, are scheduled to be started within the next several months. Moreover, a petroleum purchase contract will permit the USSR to enter the Ceylonese market. Most of Ceylon's sheet rubber exports in 1962 are expected to be delivered to Bloc buyers.

Cambodia's economic relations with the Bloc during the last half of 1961 remained generally unchanged. Politically, however, Cambodia veered in the direction of a greater accommodation with the Bloc. Modest progress was made in existing Bloc projects, and the gift items promised to Prince Sihanouk during his 1960 visit to the Bloc have been delivered. Sihanouk is reported to be considering a Bloc offer of aircraft, but he has decided not to accept Bloc antiaircraft guns. Additional Cambodian students departed for study in Soviet Bloc countries.

The expansion and intensification of Sino-Soviet Bloc economic and political relations with Indonesia continued during the last 6 months of 1961. The Bloc continued to give strong political support to Indonesia on the West New Guinea issue, and in turn Indonesia sided with the Bloc on such international issues as Berlin. New economic credits amounting to \$60.5 million brought the total of Bloc economic and military aid to \$1.3 billion. A series of high-level Soviet Bloc missions to Indonesia resulted in \$36.5 million in credits from Poland and \$24.0 million in credits from Hungary. All these credits covered industrial projects ranging from coal mining to the development of a pharmaceutical industry. Progress continued on Bloc aid projects already underway, although in a number of instances very slowly. In addition to the new economic credits, Bloc deliveries of military equipment were an outstanding development during the period. Indonesia acquired 10 Tu-16 medium jet bombers; a wide variety of army, navy, and air force equipment and arms; 8 Soviet motor torpedo boats; and 10 river gunboats. At the end of September, Soviet Admiral Chernopay arrived in Djakarta to head a military training mission that may eventually include 300 Soviet military personnel and technicians. At least 390 Indonesian military personnel were estimated to be receiving training in the Bloc as of the end of the year.

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# **SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS 1 JULY - 31 DECEMBER 1961**

### **SUMMARY**

(The complete text of this report has been published separately.)

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Patterns and Prospects

In 1961, Bloc economic relations with underdeveloped countries generally followed the main patterns observed in earlier years: a high level of new economic aid,\* an increase in drawings on developmental credits, an expansion of military assistance, a sizable influx of Bloc technical personnel, and a growth in the number of matriculants at Bloc training facilities.\*\* Although Cuba remained the focal point in Latin America, a number of countries in Africa were accorded increased attention, and activities in the Middle East and Asia were intensified.

Afghanistan was the principal recipient of new Bloc economic aid. The USSR extended \$196 million\*\*\* in two lines of credit for projects included in Afghanistan's Second Five Year Plan (1962-67). As a reflection of the special status that Moscow has accorded Kabul, a major part of the new economic aid will carry no interest charge and will be repayable over half a century. Although similar terms were applied to a relatively small credit extended in 1957 for petroleum exploration in northern Afghanistan, no other underdeveloped country has received a Soviet credit carrying such favorable terms.

The USSR responded with unqualified support for Afghanistan to the crisis in Afghan-Pakistani relations that culminated in the severance of diplomatic relations between Afghanistan and Pakistan last September. Soviet purchases of a portion of Afghanistan's fresh fruit crop (normally sold to Pakistan and India) and a supplementary transit agreement that will permit all items in Afghanistan's trade to transit the USSR at rates competitive with the route via Pakistan were decisive Soviet efforts to ameliorate difficulties arising from the closing of the Pakistani border.

Considerable progress was made in construction work on projects financed under credits extended in earlier years. With some exceptions, such as the Bhilai steel mill, expenditures for projects that are both large and unique have not weighed heavily in past drawings

\* See Figure 1, following p. 14.

\*\* For details, see the summary table, p. 13, below.

\*\*\* Unless otherwise indicated, all dollar values in this report are in terms of US dollars.

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on major lines of credit. By 1961, however, planning and survey work on a number of such projects had been completed and construction work started. Whereas in earlier years drawings for these projects were confined largely to payment for technical services, in 1961 substantial drawings also were made to cover the foreign exchange costs of construction materials and equipment. As a result, drawings on Bloc economic credits and grants in 1961 were considerably more than in any previous year.

The USSR pursued its arms diplomacy with vigor throughout most of 1961. Moscow responded to urgent appeals from several of its established customers for large quantities of arms, including some recent-generation weapons. Although the Kremlin repeatedly has evidenced strong displeasure with the suppression of local Communist groups in Iraq and the United Arab Republic (UAR), its irritation did not prevent the conclusion of new military aid pacts with Baghdad and Cairo. Nor did the anti-Communist orientation of the Indonesian army deter Moscow from including substantial quantities of land armaments in an expanded military aid accord with Djakarta. The foreign policies of Kassem, Nasser, and Sukarno -- particularly as concerns the Kuwait, Israel, and West New Guinea issues -- served to elicit positive expressions of Soviet support, of which the new military aid agreements are important but by no means the sole elements.

#### Economic and Military Aid

The Bloc extended more than \$470 million in economic aid to under-developed countries during the last 6 months of 1961, almost all in the form of credits. In 1961, new economic aid totaled more than \$980 million, about \$200 million less than in 1960 but more than in any other year. From the inception of its economic aid program in 1954 to the end of 1961, the Bloc has extended economic credits and grants totaling nearly \$4.6 billion -- 95 percent in the form of credits. Of all Bloc economic aid extended by the close of 1961, almost three-fourths was provided by the USSR and a like proportion was for countries in the Middle East and Asia.

About 70 percent of all Bloc economic aid extended by the end of the year had been obligated for specific purposes. Of the total obligated by the end of 1961, more than one-half has been channeled into projects that will contribute directly to an expansion of industry; almost one-fourth has been directed into activities that will boost the output of agriculture, energy, and minerals; and approximately one-seventh has been allocated for transportation and communications.

Although the terms of Bloc economic credits vary from case to case, most of them carry low interest rates and are long term. Of all Bloc

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economic credits extended by the close of 1961, 85 percent provide for repayment periods of 10 years or more.

Drawings on economic credits and grants are estimated to be about \$180 million for the last 6 months of 1961 and about \$305 million for the entire year. The level of drawings in 1961 was 50 percent higher than for 1958, the previous record year, and more than twice the annual average for the period 1956-60. By the end of 1961, about 23 percent of cumulative Bloc credits and grants extended had been drawn. This proportion of expenditure, in relation to cumulative commitments, is about the same as the average for the last 4 years.

One major new military aid agreement -- between the USSR and Iraq -- was concluded in the second half of 1961. Deliveries under this accord began in the closing months of the year. In addition, substantial deliveries were made under agreements signed earlier in 1961 by the USSR with Indonesia and the UAR.

By the end of 1961 the Bloc had entered into agreements to provide 12 underdeveloped countries with more than \$2.2 billion worth of military supplies and equipment. When known downpayments are deducted, the amount of financial aid extended by the Bloc for military items alone since September 1955 totals almost \$2.1 billion. When discounts also are deducted, the credit financing provided amounts to nearly \$1.6 billion.

#### Technical Assistance

During the last 6 months, about 10,300 Bloc technicians of all types were present in underdeveloped countries -- an increase of 5 percent above the first half of 1961. The number of economic technicians increased 3 percent and of military technicians almost 18 percent.

By the end of 1961, about 21,600 individuals had been or were being trained at academic, technical, or military training centers in the Bloc. This figure represents an increase of 45 percent above the number at the end of June 1961. The most rapid growth continues to be in the number of academic students, who now constitute the largest of the three categories.

Almost 8,500 Bloc technicians were engaged in economic activity on a contract basis in 27 underdeveloped countries during the last half of 1961. Declines in Yemen, Cambodia, and India were more than offset by increases elsewhere. The largest gains were registered in Cuba, Guinea, Indonesia, Iraq, Mali, and the UAR.

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More than 1,800 military specialists were present in 10 underdeveloped countries. The largest increases occurred in the UAR, Cuba, Indonesia, and Iraq. Mali accepted 15 Soviet military technicians, the first Bloc military technicians for this West African country.

The number of nationals from underdeveloped countries who have undertaken instruction, both academic and technical, in the Bloc rose by about 4,800 during the last half of 1961. Large increases in the number undertaking academic training were registered for Cuba, Iraq, the Somali Republic, and Indonesia. In addition to the academic students, about 2,000 new arrivals enrolled in technical training courses.

Since early 1956, nearly 14,400 nationals from underdeveloped countries have enrolled at Bloc universities and technical training facilities. More than one-half of these nationals have pursued academic programs, and the remainder have engaged in studies of a technical nature. Of the 47 underdeveloped countries participating in these nonmilitary programs, 5 countries -- Cuba, India, Indonesia, Iraq, and the UAR -- account for about 70 percent of the total number of students and trainees sent to the Bloc.

Approximately 1,950 new trainees undertook military training in the Bloc during the last 6 months of 1961. Since 1955, about 7,225 military trainees from underdeveloped countries have undertaken courses of instruction in the Bloc, mainly in the USSR, Poland, and Czechoslovakia. Indonesia provided more than 40 percent of the total, and the UAR, Afghanistan, Syria, and Iraq accounted for most of the remainder.

#### Trade

During the first 6 months of 1961 the value of Bloc trade with underdeveloped countries was \$1.6 billion, 15 percent above the level for the comparable period in 1960. At an annual rate, however, trade in the first 6 months of 1961 was only 9 percent above the level recorded for all of 1960. The increase achieved is the direct result of a substantial growth in trade with Cuba, which more than offset declines in trade with all other areas. In the first half of 1961 the Soviet share in Bloc trade with underdeveloped countries increased and that of the European Satellites and Communist China declined.

Although the trends were not uniform for all countries and commodities, the decline in the value of Bloc trade with most underdeveloped countries probably was due more to price changes than to a decline in the volume of commodities exchanged. Average prices of agricultural products in world trade, which had risen during 1959 and the early part of 1960, fell somewhat during the second half of the year. This decline

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also carried over into the first half of 1961. The price declines were particularly significant for some of the major commodities imported by the Bloc from the underdeveloped countries -- for example, cocoa, cotton, tobacco, and rubber.

The commodity composition of Bloc trade with underdeveloped countries in 1960 changed little from 1959. There was a significant shift, however, within the foodstuffs category. Bloc imports were dominated by cotton and rubber, which together accounted for 36 percent of total imports from underdeveloped countries. Foodstuffs, primarily sugar, coffee, and cocoa, comprised nearly 20 percent, and wool, hides and skins, and iron ore account for most of the remainder.

Among Bloc exports the share represented by manufactured goods and machinery and transportation equipment continued to increase. These categories accounted for 63 percent of Bloc exports to underdeveloped countries in 1960, compared with 58 percent in 1959. Petroleum and petroleum products and chemicals continued to comprise an important part of Bloc exports in 1960, but exports of grains dropped sharply.

#### Latin America

During the latter half of 1961, policies of Latin American countries with regard to economic relations with the Sino-Soviet Bloc were generally characterized by an attitude of "wait and see." Expectations created by President Kennedy's "Alliance for Progress" were rising, and hopes for economic assistance from the United States helped to discourage overt flirtation with the Bloc. New economic credits from the Bloc were few, and trade with most countries of Latin America was at lower levels in 1961 than during the same period in 1960.

The exception to this general rule was, of course, Cuba. Its political and economic relations with the Bloc continued to increase dramatically. Cuba's economy continued its reorientation toward the Bloc, and its political isolation in the hemisphere was increased. Exchanges of visitors, both official and informal, were numerous and frequent. Trade turnover with the Bloc rose to about \$850 million in 1961, and Bloc purchases of Cuban sugar amounted to 80 percent of Cuba's total sugar exports. By the end of the year, Bloc economic credits to Cuba amounted to \$357 million. Although construction activities related to projects under these agreements have not been extensive, shipments of raw materials and foodstuffs and the presence of large numbers of technicians have materially aided the Cuban economy.

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Elsewhere in Latin America there was a general tendency to reject Bloc offers of assistance, and no major economic aid agreements were concluded. The availability to most countries of traditional Western markets for most of their export products this year decreased the pressure to explore new sales possibilities in Bloc markets. Except for the Quadros government in Brazil, the regional trend toward multilateral trade policies deterred the signing of new trade and payments agreements with the Bloc.

Among Bloc countries, Czechoslovakia was the most active in seeking to expand economic activities in Latin America. Indeed, for many years Czechoslovakia has been the Bloc's chief commercial contact with the area. The respect that the Czechoslovaks continue to enjoy as businessmen is an important asset to their efforts to expand commercial relations with Latin American countries. Czechoslovak technicians apparently are viewed with less suspicion than those from other Bloc countries, who are thought to be more preoccupied with propaganda and subversive activities. There were some indications, notably in Bolivia and Brazil, that Czechoslovak overtures were being aimed increasingly at local organizations such as labor syndicates and municipal governments. Their "people-to-people" approach may be calculated to increase receptivity among the Latin American people toward expanding economic dealings with Czechoslovakia.

Brazil, up to the time of President Quadros' resignation late in August 1961, was actively engaged in expanding its economic relations with the Bloc. Important commercial missions were dispatched to Bloc countries -- one in April visited the European Satellites and the USSR, and another in August traveled to Communist China. A number of trade agreements and protocols were concluded as a result of these missions, and government pronouncements reflected an anticipation of broadly expanded markets for Brazilian products.

After Quadros' resignation, however, the tempo of Brazilian interest in Bloc relations slowed considerably. Strong pressures were brought to bear on the administration of President Goulart to curb the trend toward increased contacts, and the numerous trade agreements concluded during the summer had not been ratified by the end of 1961. Diplomatic relations with the USSR were resumed, however, and an interbank payments agreement with Communist China was approved by the Goulart government.

In Bolivia the Soviet offer of \$150 million in economic credits was hotly debated, and President Paz was under increasing pressure to begin negotiations with the USSR for its use. Meanwhile, the government gave final approval to negotiate an offer by Czechoslovakia to construct an antimony smelter in Oruro; by the end of 1961, however, an agreement had not been concluded. Consideration was being given to several other Czechoslovak proposals, including a copper smelter and a sugar mill.

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Sporadic interest shown by the USSR in Chilean copper touched a sensitive nerve in that country, but negotiations have so far failed to produce a formula satisfactory to both sides, and, as in Bolivia the real commercial progress was made by Czechoslovakia.

Contacts with the Bloc by Argentina and Uruguay continued to decline in 1961. Both countries took steps to limit the size and activities of Bloc missions within their borders and to control the influence of local Communist organizations. The proportion of each country's trade with the Bloc remained low, although the Argentine Government officially encouraged the search for new export markets in Bloc countries. Interest in Uruguayan-Bloc trade diminished, largely as a result of improvements in Uruguay's trade position with traditional US and Western European partners.

#### Middle East

During the last half of 1961, Bloc economic activity in the Middle East was highlighted by a major new aid agreement with Afghanistan. The fulfillment of economic and military commitments to the UAR continued in spite of a marked deterioration in political relations that accelerated following Syria's successful revolt against Nasser late in September. Bloc political relations with Iraq improved.

Rapid and effective exploitation of Afghanistan's break in diplomatic relations with Pakistan (together with such developments as a large new Soviet credit; new Bloc-Afghan scientific, technical, and cultural exchange agreements; and expanded Soviet military assistance to the Afghan army) provided the Bloc with some of its most definite economic offensive achievements during 1961. Shortly after the Afghan-Pakistani frontier was closed to all trade in September, the USSR purchased a large part of Afghanistan's important fresh fruit crop. The USSR also announced measures to facilitate the transit of Afghan trade through Soviet territory at subsidized rates. These measures were combined with strong Soviet propaganda and political support for Afghanistan on the Pushtunistan issue. In October a new Soviet economic assistance agreement was signed that provided two credits totaling \$196 million under favorable terms. The new credits raised the total of Soviet economic aid to that country since 1954 to more than \$400 million.

The USSR continued to deliver equipment, including T-54 tanks, under its military aid program in Afghanistan. Long-term training of Afghan military cadets in the USSR increased, and a number of high-ranking Soviet military advisers arrived following a visit by Soviet Marshal Sokolovskiy during October. The implementation of a number of cultural and scientific exchange agreements resulted in a considerable number of cultural, scientific, educational, and athletic exchanges

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during the latter part of 1961, including a reported Soviet offer of about 500 scholarships for 3-year and 4-year courses in Russian-language study in the USSR. Other recent developments have included a continued high level of activity by Soviet experts in preparing the Afghan Second Five Year Plan, a Soviet-Afghan agreement on a number of important economic development projects in northern Afghanistan, the Soviet presentation of an atomic reactor to the Afghan Government, and a Czechoslovak agreement to construct and equip an arms factory near Kabul.

The bitter exchanges between Moscow and Cairo that began in May, following Khrushchev's disparaging remarks to a UAR delegation then visiting the USSR, caused a rift between the two countries that continued through the rest of the year. Soviet charges that the UAR was discriminating against Syrian and Egyptian Communist Parties and failing to properly acclaim Bloc economic aid projects were countered by Cairo's claim that local Communists were agents of the USSR and allegations that Moscow was dissatisfied with the UAR's policies of independence and neutrality. Moscow's precipitate recognition of Syria further exacerbated UAR-Soviet relations. In spite of these irritants the USSR continued to provide important economic assistance to the UAR for the construction of the Aswan High Dam and other projects and also continued to deliver arms and military equipment. No new contracts are known to have been signed for industrial projects included in the 1958 credit agreement, but it is estimated that about \$50 million of the \$100 million credit for the first stage of the Aswan High Dam had been contracted. Although progress on the dam was slightly behind schedule, it was anticipated that it could still be completed on time. Trade between the UAR and the Bloc declined slightly during the first half of 1961 compared with the comparable period for 1960. This decline, however, reflects a decrease in cotton prices rather than a drop in the volume of cotton exported to the Bloc.

On 28 September a Syrian army coup dissolved Syria's union with Egypt, and only a few hours later the USSR became the first major power to recognize an independent Syria. No new credits were extended to Syria by the Bloc during 1961, and in the latter half of the year only one new project was begun by a Bloc country -- work in connection with the Ghab reclamation project (in the Orontes Valley) that was awarded to Bulgaria. It is estimated that during the last 6 months of 1961 there were 415 Soviet Bloc economic and 200 military technicians in Syria. The volume of Syria's imports from the Bloc declined slightly during the first 8 months of 1961, but the Bloc continued to be a major market for Syria's cotton, taking 40 percent of all cotton exported during the 1960/61 season. As the year ended it appeared that, in spite of manifestations of more favorable relations with the West, Syria would continue to maintain strong economic relations with the Bloc,

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both to sustain its announced "neutral" position and also as a result of Bloc entrenchment as its sole supplier of arms.

The Bloc's influence in Iraq became stronger during the last half of 1961 as a result of such developments as Soviet support for Iraq's claim to Kuwait, Iraq's dispute with the Western oil firms, and the near-completion of Iraq's changeover to Soviet military materiel. In consequence, Kassem became more lenient toward local Communists and awarded development projects to the Soviet Bloc against the better judgment of his subordinates. Although no additional credits for economic assistance were extended to Iraq by any Soviet Bloc country during 1961, a \$50 million arms agreement was obtained from the USSR by an Iraqi mission that visited Moscow late in the year. Work on Bloc economic development projects in Iraq continued at a slow pace, with only one project, a radiobroadcasting station, completed during the period under review. Bloc efforts to speed up implementation resulted in an increase in the number of Bloc technicians in Iraq during the last few months of the year. Iraqi imports from the Bloc during 1961 are expected to have risen, mainly as a result of the increased exports of machinery and equipment from Bloc countries. Iraqi exports to the Bloc remain small.

Any limited gains that the USSR may have achieved in Pakistan during the first several months of 1961 through overtures seeking to exploit Pakistani neutralist sentiment appear to have been largely negated during recent months. US reassurance to President Ayub during his visit to Washington in July and Soviet support for Afghanistan on the Pushtunistan issue and support for India over Kashmir, together with the resumption of Soviet nuclear testing and Soviet criticism of Pakistan as an example of a colonialist-dominated state, have all resulted in disillusionment and resentment regarding Soviet objectives. No new Bloc aid has been extended. Cultural exchanges have been few, and there was a slight decline in the volume of trade recorded during 1961. The arrival of 25 Soviet petroleum technicians to begin oil exploration activities under the \$30 million agreement that was concluded with the USSR in the spring constituted the Bloc's only major economic activity during the period under review.

In Yemen the Bloc continued to maintain a considerable degree of influence, especially in view of traditional Yemeni antipathy toward the British and other Western elements and because of the continued success of the Bloc in portraying itself as a generous and disinterested benefactor of the Yemeni people. No new credits were extended from the Bloc to Yemen during 1961. In August the USSR and Yemen initialed an agreement for the construction of the Hudaydah-Ta'izz road, but no final agreement has yet been reported. Nor have final agreements been announced on other Soviet aid offers, including a proposal for Aeroflot

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assistance in the organization of a civil airline. At the end of November the Chinese Communists claimed to have completed the asphalt-ing of the Hydaydah-San'a road and also were reported to have offered to initiate a cotton-raising scheme to supply cotton for a textile plant they are scheduled to build at San'a in 1962. During the latter part of 1961 the number of Bloc technicians in Yemen declined to about 640, of which about 500 were Chinese Communists. Soviet-Yemeni trade also declined, notably the barter of Yemeni coffee for Soviet sugar. The decline in Soviet trade was offset by increases in Yemeni trade with the Satellites, and in general Yemeni trade continued to be oriented toward the Bloc.

#### Africa

During the second half of 1961 the Bloc negotiated an economic aid agreement with Sudan for the first time and expanded aid and trade agreements with a number of other African countries, most notably Ghana. On the other hand, a substantial Bloc offer was rejected by the Congo (Leopoldville). Furthermore, Bloc relations with Guinea, where there is the greatest concentration of tangible Communist aid on the African continent outside of the UAR, became snarled by Guinean charges of Bloc involvement in an alleged local plot against the government -- Guinea ordered the Soviet Ambassador out of the country, and early in 1962 Soviet Deputy Premier Mikoyan flew to Conakry to smooth over the situation.

Sudan accepted a \$22 million Soviet credit, partly as a means of demonstrating its professed neutralism, but it continued to rely principally on the West for foreign help in financing economic development. Ethiopia and the USSR finally agreed on the construction of a \$12 million oil refinery, to be financed under a \$100 million Soviet credit extended in 1959, of which only about \$2 million had been drawn. Tunisia, made receptive to Bloc overtures by the frustration of its military skirmishes against the French-held naval base of Bizerte, accepted \$38 million worth of new Bloc credits, but it continues to rely principally on the United States for foreign economic assistance.

Ghana received \$93 million in new Bloc credits, which President Nkrumah had solicited during an extended visit to Communist capitals in the summer of 1961; and even more credits may have been negotiated during the period but not announced specifically. With a total of \$182.1 million in identifiable Bloc credits, during the last 6 months Ghana far exceeded Guinea as the major beneficiary of Bloc aid commitments in Africa.

Mali, which received substantial Bloc credits during the first half of 1961, got only \$7.5 million in new credits during the second half. The Somali Republic, also a major earlier recipient, got no new credits.

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Trade with the Bloc continued to grow, but there were no major shifts, except for an erratic drop in Ghanaian exports to the Bloc -- a situation which will subsequently be regulated by long-term Soviet commitments (to purchase cocoa) that were negotiated during the second half of 1961. Bloc shipments of military items continued at a substantial level, notably to Morocco for transshipment to the Algerian rebels.

Asia

During the last 6 months of 1961, political and economic instabilities in a number of Asian countries continued to provide the Bloc with opportunities for economic advances, especially in Nepal and Indonesia.

India's political, cultural, and economic relations with the USSR and its European Satellites continued to grow during the second half of 1961, whereas relations with Communist China continued to deteriorate. Czechoslovakia was the only Bloc country to extend additional aid during the period under review, and there was little change in the volume and character of Bloc trade, but considerable progress was made on project commitments. A potentially sensitive aspect of the Bloc economic offensive in India continued to be the Soviet penetration of India's petroleum and aircraft industries. In addition, India concluded agreements for cooperation in the peaceful uses of nuclear energy with the USSR and Hungary. Several project contracts, dealing principally with India's heavy machinery industry, were signed with Czechoslovakia, Hungary, East Germany, and Poland under existing basic aid agreements.

The most significant event in Burma's relations with the Sino-Soviet Bloc during the last half of 1961 was the signing in December of a protocol committing for project use the \$84 million Chinese Communist credit of January 1961. The three Soviet "gift" projects were formally turned over to the Burmese Government in July. There is evidence of increased Bloc interest in offering scholarships to Burmese students. Efforts were exerted to reduce Bloc clearing account deficits.

Political unrest in Nepal and the willingness of King Mahendra to regard Bloc aid as a substitute for financial reform have made this country an inviting target for Bloc economic offers. Grants, primarily from Communist China, amounting to \$55 million have been extended to Nepal, nearly \$14 million during the last 6 months of 1961. A new grant from Communist China is for the construction of a motor road. Agreement was reached also on construction contracts for a number of other projects under earlier grants. Nepal had previously obtained considerable local currency assistance from Communist China, and the USSR has now agreed to provide about \$4 million to cover the local costs of its aid projects.



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Severe domestic unrest has led government officials in Ceylon to intensify efforts to implement Bloc aid programs and at the same time accelerate efforts to establish state ownership of enterprise. No new Bloc aid has been received, but several implementation contracts on earlier credits were signed. Several projects, including a rolling mill, a tire factory, and a textile mill, are scheduled to be started within the next several months. Moreover, a petroleum purchase contract will permit the USSR to enter the Ceylonese market. Most of Ceylon's sheet rubber exports in 1962 are expected to be delivered to Bloc buyers.

Cambodia's economic relations with the Bloc during the last half of 1961 remained generally unchanged. Politically, however, Cambodia veered in the direction of a greater accommodation with the Bloc. Modest progress was made in existing Bloc projects, and the gift items promised to Prince Sihanouk during his 1960 visit to the Bloc have been delivered. Sihanouk is reported to be considering a Bloc offer of aircraft, but he has decided not to accept Bloc antiaircraft guns. Additional Cambodian students departed for study in Soviet Bloc countries.

The expansion and intensification of Sino-Soviet Bloc economic and political relations with Indonesia continued during the last 6 months of 1961. The Bloc continued to give strong political support to Indonesia on the West New Guinea issue, and in turn Indonesia sided with the Bloc on such international issues as Berlin. New economic credits amounting to \$60.5 million brought the total of Bloc economic and military aid to \$1.3 billion. A series of high-level Soviet Bloc missions to Indonesia resulted in \$36.5 million in credits from Poland and \$24.0 million in credits from Hungary. All these credits covered industrial projects ranging from coal mining to the development of a pharmaceutical industry. Progress continued on Bloc aid projects already underway, although in a number of instances very slowly. In addition to the new economic credits, Bloc deliveries of military equipment were an outstanding development during the period. Indonesia acquired 10 Tu-16 medium jet bombers; a wide variety of army, navy, and air force equipment and arms; 8 Soviet motor torpedo boats; and 10 river gunboats. At the end of September, Soviet Admiral Chernopay arrived in Djakarta to head a military training mission that may eventually include 300 Soviet military personnel and technicians. At least 390 Indonesian military personnel were estimated to be receiving training in the Bloc as of the end of the year.

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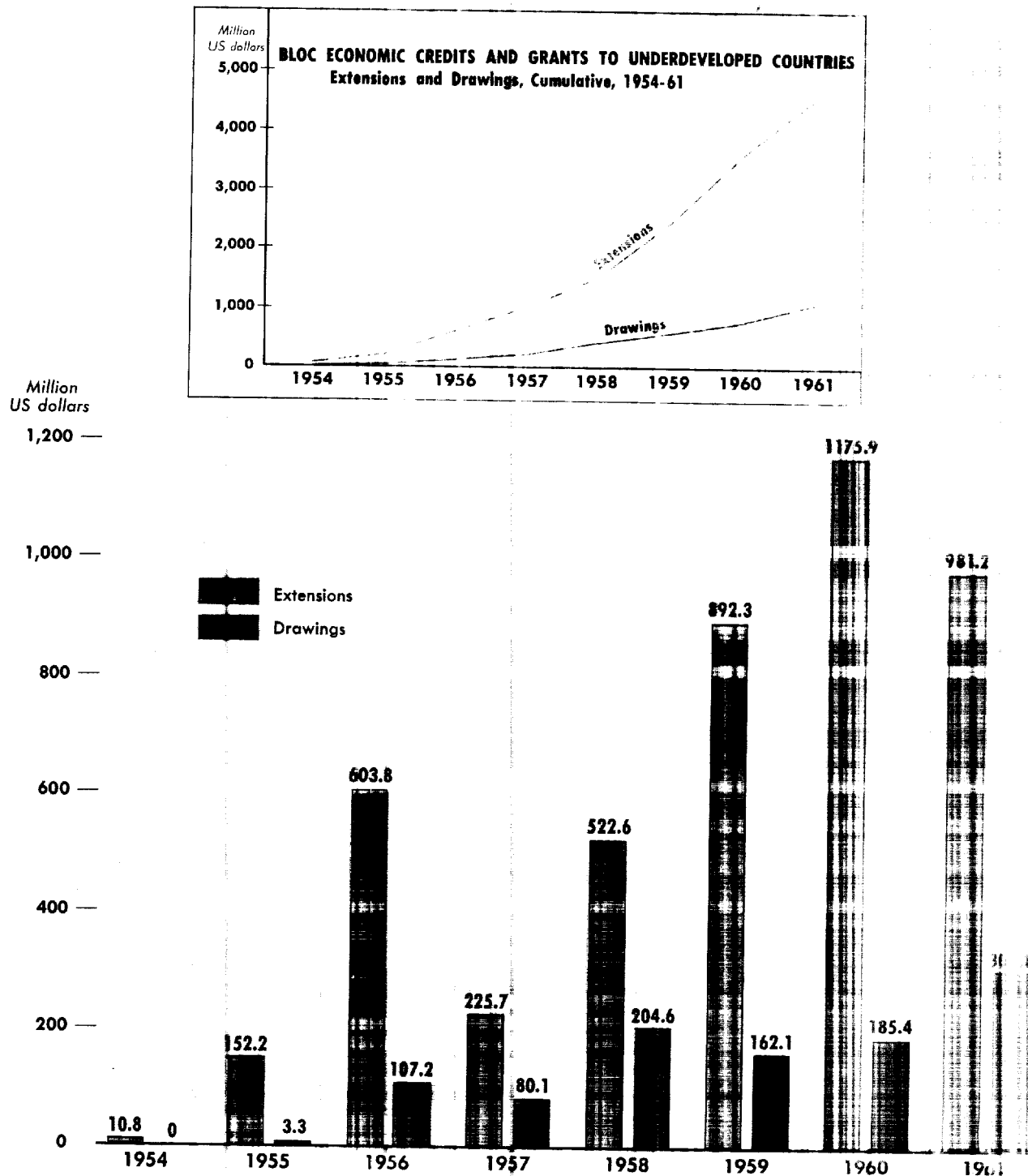
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# **BLOC ECONOMIC CREDITS AND GRANTS TO UNDERDEVELOPED COUNTRIES**

**Extensions and Drawings, by Year, 1954-61**

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**SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS  
1 JULY - 31 DECEMBER 1961**

**February 1962**

**SECRET**

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**SECRET**

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FOREWORD

The reports on Sino-Soviet Bloc economic activities in underdeveloped areas in this series provide periodic summaries and analytical interpretations of significant developments in the economic relations of Bloc countries with underdeveloped countries of the Free World. These developments are reported on a current, factual basis in biweekly reports under the same title.

This report, covering the 6 months from 1 July through 31 December 1961, constitutes the twelfth periodic supplement to a background report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement relates noteworthy noneconomic activities, including military aid, to the economic operations of the Bloc in underdeveloped countries in order to place the economic aspects in the perspective of the over-all programs of the Bloc in these countries.

For purposes of this report, the term underdeveloped areas includes the following Free World countries: (1) all independent countries in Latin America; (2) all countries in the Middle East, including Afghanistan, Cyprus, Greece, Pakistan, the Syrian Arab Republic, Turkey, and the United Arab Republic (Egypt); (3) all countries in Africa except the Republic of South Africa; (4) all countries in South and Southeast Asia; and (5) Iceland, Portugal, Spain, and Yugoslavia.

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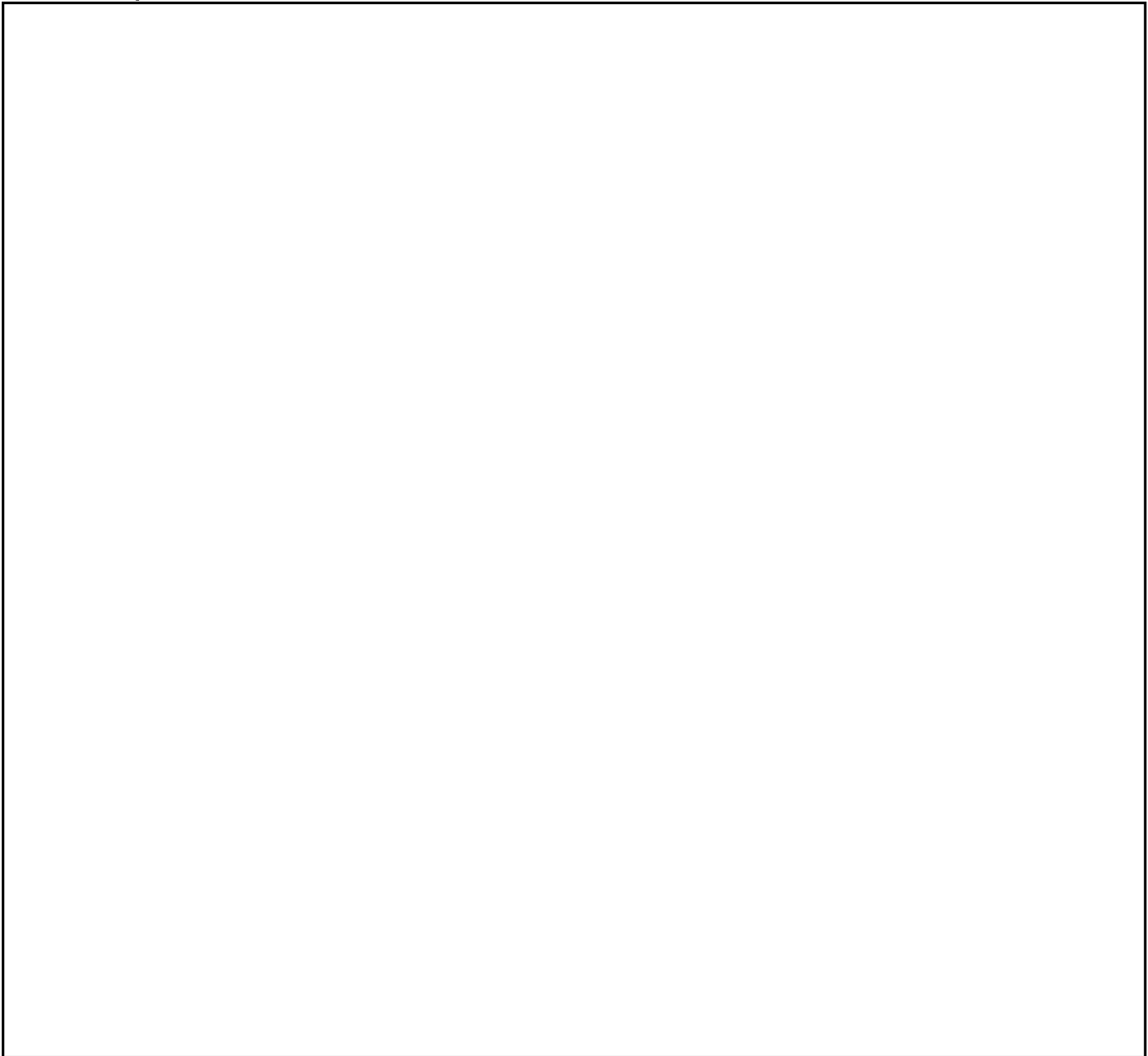
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1 JULY - 31 DECEMBER 1961

Summary

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on major lines of credit. By 1961, however, planning and survey work on a number of such projects had been completed and construction work started. Whereas in earlier years drawings for these projects were confined largely to payment for technical services, in 1961 substantial drawings also were made to cover the foreign exchange costs of construction materials and equipment. As a result, drawings on Bloc economic credits and grants in 1961 were considerably more than in any previous year.

The USSR pursued its arms diplomacy with vigor throughout most of 1961. Moscow responded to urgent appeals from several of its established customers for large quantities of arms, including some recent-generation weapons. Although the Kremlin repeatedly has evidenced strong displeasure with the suppression of local Communist groups in Iraq and the United Arab Republic (UAR), its irritation did not prevent the conclusion of new military aid pacts with Baghdad and Cairo. Nor did the anti-Communist orientation of the Indonesian army deter Moscow from including substantial quantities of land armaments in an expanded military aid accord with Djakarta. The foreign policies of Kassem, Nasser, and Sukarno -- particularly as concerns the Kuwait, Israel, and West New Guinea issues -- served to elicit positive expressions of Soviet support, of which the new military aid agreements are important but by no means the sole elements.

#### Economic and Military Aid

The Bloc extended more than \$470 million in economic aid to underdeveloped countries during the last 6 months of 1961, almost all in the form of credits. In 1961, new economic aid totaled more than \$980 million, about \$200 million less than in 1960 but more than in any other year. From the inception of its economic aid program in 1954 to the end of 1961, the Bloc has extended economic credits and grants totaling nearly \$4.6 billion -- 95 percent in the form of credits. Of all Bloc economic aid extended by the close of 1961, almost three-fourths was provided by the USSR and a like proportion was for countries in the Middle East and Asia.

About 70 percent of all Bloc economic aid extended by the end of the year had been obligated for specific purposes. Of the total obligated by the end of 1961, more than one-half has been channeled into projects that will contribute directly to an expansion of industry; almost one-fourth has been directed into activities that will boost the output of agriculture, energy, and minerals; and approximately one-seventh has been allocated for transportation and communications.

Although the terms of Bloc economic credits vary from case to case, most of them carry low interest rates and are long term. Of all Bloc

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economic credits extended by the close of 1961, 85 percent provide for repayment periods of 10 years or more.

Drawings on economic credits and grants are estimated to be about \$180 million for the last 6 months of 1961 and about \$305 million for the entire year. The level of drawings in 1961 was 50 percent higher than for 1958, the previous record year, and more than twice the annual average for the period 1956-60. By the end of 1961, about 23 percent of cumulative Bloc credits and grants extended had been drawn. This proportion of expenditure, in relation to cumulative commitments, is about the same as the average for the last 4 years.

One major new military aid agreement -- between the USSR and Iraq -- was concluded in the second half of 1961. Deliveries under this accord began in the closing months of the year. In addition, substantial deliveries were made under agreements signed earlier in 1961 by the USSR with Indonesia and the UAR.

By the end of 1961 the Bloc had entered into agreements to provide 12 underdeveloped countries with more than \$2.2 billion worth of military supplies and equipment. When known downpayments are deducted, the amount of financial aid extended by the Bloc for military items alone since September 1955 totals almost \$2.1 billion. When discounts also are deducted, the credit financing provided amounts to nearly \$1.6 billion.

#### Technical Assistance

During the last 6 months, about 10,300 Bloc technicians of all types were present in underdeveloped countries -- an increase of 5 percent above the first half of 1961. The number of economic technicians increased 3 percent and of military technicians almost 18 percent.

By the end of 1961, about 21,600 individuals had been or were being trained at academic, technical, or military training centers in the Bloc. This figure represents an increase of 45 percent above the number at the end of June 1961. The most rapid growth continues to be in the number of academic students, who now constitute the largest of the three categories.

Almost 8,500 Bloc technicians were engaged in economic activity on a contract basis in 27 underdeveloped countries during the last half of 1961. Declines in Yemen, Cambodia, and India were more than offset by increases elsewhere. The largest gains were registered in Cuba, Guinea, Indonesia, Iraq, Mali, and the UAR.

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More than 1,800 military specialists were present in 10 underdeveloped countries. The largest increases occurred in the UAR, Cuba, Indonesia, and Iraq. Mali accepted 15 Soviet military technicians, the first Bloc military technicians for this West African country.

The number of nationals from underdeveloped countries who have undertaken instruction, both academic and technical, in the Bloc rose by about 4,800 during the last half of 1961. Large increases in the number undertaking academic training were registered for Cuba, Iraq, the Somali Republic, and Indonesia. In addition to the academic students, about 2,000 new arrivals enrolled in technical training courses.

Since early 1956, nearly 14,400 nationals from underdeveloped countries have enrolled at Bloc universities and technical training facilities. More than one-half of these nationals have pursued academic programs, and the remainder have engaged in studies of a technical nature. Of the 47 underdeveloped countries participating in these nonmilitary programs, 5 countries -- Cuba, India, Indonesia, Iraq, and the UAR -- account for about 70 percent of the total number of students and trainees sent to the Bloc.

Approximately 1,950 new trainees undertook military training in the Bloc during the last 6 months of 1961. Since 1955, about 7,225 military trainees from underdeveloped countries have undertaken courses of instruction in the Bloc, mainly in the USSR, Poland, and Czechoslovakia. Indonesia provided more than 40 percent of the total, and the UAR, Afghanistan, Syria, and Iraq accounted for most of the remainder.

#### Trade

During the first 6 months of 1961 the value of Bloc trade with underdeveloped countries was \$1.6 billion, 15 percent above the level for the comparable period in 1960. At an annual rate, however, trade in the first 6 months of 1961 was only 9 percent above the level recorded for all of 1960. The increase achieved is the direct result of a substantial growth in trade with Cuba, which more than offset declines in trade with all other areas. In the first half of 1961 the Soviet share in Bloc trade with underdeveloped countries increased and that of the European Satellites and Communist China declined.

Although the trends were not uniform for all countries and commodities, the decline in the value of Bloc trade with most underdeveloped countries probably was due more to price changes than to a decline in the volume of commodities exchanged. Average prices of agricultural products in world trade, which had risen during 1959 and the early part of 1960, fell somewhat during the second half of the year. This decline

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also carried over into the first half of 1961. The price declines were particularly significant for some of the major commodities imported by the Bloc from the underdeveloped countries -- for example, cocoa, cotton, tobacco, and rubber.

The commodity composition of Bloc trade with underdeveloped countries in 1960 changed little from 1959. There was a significant shift, however, within the foodstuffs category. Bloc imports were dominated by cotton and rubber, which together accounted for 36 percent of total imports from underdeveloped countries. Foodstuffs, primarily sugar, coffee, and cocoa, comprised nearly 20 percent, and wool, hides and skins, and iron ore account for most of the remainder.

Among Bloc exports the share represented by manufactured goods and machinery and transportation equipment continued to increase. These categories accounted for 63 percent of Bloc exports to underdeveloped countries in 1960, compared with 58 percent in 1959. Petroleum and petroleum products and chemicals continued to comprise an important part of Bloc exports in 1960, but exports of grains dropped sharply.

#### Latin America

During the latter half of 1961, policies of Latin American countries with regard to economic relations with the Sino-Soviet Bloc were generally characterized by an attitude of "wait and see." Expectations created by President Kennedy's "Alliance for Progress" were rising, and hopes for economic assistance from the United States helped to discourage overt flirtation with the Bloc. New economic credits from the Bloc were few, and trade with most countries of Latin America was at lower levels in 1961 than during the same period in 1960.

The exception to this general rule was, of course, Cuba. Its political and economic relations with the Bloc continued to increase dramatically. Cuba's economy continued its reorientation toward the Bloc, and its political isolation in the hemisphere was increased. Exchanges of visitors, both official and informal, were numerous and frequent. Trade turnover with the Bloc rose to about \$850 million in 1961, and Bloc purchases of Cuban sugar amounted to 80 percent of Cuba's total sugar exports. By the end of the year, Bloc economic credits to Cuba amounted to \$357 million. Although construction activities related to projects under these agreements have not been extensive, shipments of raw materials and foodstuffs and the presence of large numbers of technicians have materially aided the Cuban economy.

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Elsewhere in Latin America there was a general tendency to reject Bloc offers of assistance, and no major economic aid agreements were concluded. The availability to most countries of traditional Western markets for most of their export products this year decreased the pressure to explore new sales possibilities in Bloc markets. Except for the Quadros government in Brazil, the regional trend toward multi-lateral trade policies deterred the signing of new trade and payments agreements with the Bloc.

Among Bloc countries, Czechoslovakia was the most active in seeking to expand economic activities in Latin America. Indeed, for many years Czechoslovakia has been the Bloc's chief commercial contact with the area. The respect that the Czechoslovaks continue to enjoy as businessmen is an important asset to their efforts to expand commercial relations with Latin American countries. Czechoslovak technicians apparently are viewed with less suspicion than those from other Bloc countries, who are thought to be more preoccupied with propaganda and subversive activities. There were some indications, notably in Bolivia and Brazil, that Czechoslovak overtures were being aimed increasingly at local organizations such as labor syndicates and municipal governments. Their "people-to-people" approach may be calculated to increase receptivity among the Latin American people toward expanding economic dealings with Czechoslovakia.

Brazil, up to the time of President Quadros' resignation late in August 1961, was actively engaged in expanding its economic relations with the Bloc. Important commercial missions were dispatched to Bloc countries -- one in April visited the European Satellites and the USSR, and another in August traveled to Communist China. A number of trade agreements and protocols were concluded as a result of these missions, and government pronouncements reflected an anticipation of broadly expanded markets for Brazilian products.

After Quadros' resignation, however, the tempo of Brazilian interest in Bloc relations slowed considerably. Strong pressures were brought to bear on the administration of President Goulart to curb the trend toward increased contacts, and the numerous trade agreements concluded during the summer had not been ratified by the end of 1961. Diplomatic relations with the USSR were resumed, however, and an interbank payments agreement with Communist China was approved by the Goulart government.

In Bolivia the Soviet offer of \$150 million in economic credits was hotly debated, and President Paz was under increasing pressure to begin negotiations with the USSR for its use. Meanwhile, the government gave final approval to negotiate an offer by Czechoslovakia to construct an antimony smelter in Oruro; by the end of 1961, however, an agreement had not been concluded. Consideration was being given to several other Czechoslovak proposals, including a copper smelter and a sugar mill.

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Sporadic interest shown by the USSR in Chilean copper touched a sensitive nerve in that country, but negotiations have so far failed to produce a formula satisfactory to both sides, and, as in Bolivia, the real commercial progress was made by Czechoslovakia.

Contacts with the Bloc by Argentina and Uruguay continued to decline in 1961. Both countries took steps to limit the size and activities of Bloc missions within their borders and to control the influence of local Communist organizations. The proportion of each country's trade with the Bloc remained low, although the Argentine Government officially encouraged the search for new export markets in Bloc countries. Interest in Uruguayan-Bloc trade diminished, largely as a result of improvements in Uruguay's trade position with traditional US and Western European partners.

#### Middle East

During the last half of 1961, Bloc economic activity in the Middle East was highlighted by a major new aid agreement with Afghanistan. The fulfillment of economic and military commitments to the UAR continued in spite of a marked deterioration in political relations that accelerated following Syria's successful revolt against Nasser late in September. Bloc political relations with Iraq improved.

Rapid and effective exploitation of Afghanistan's break in diplomatic relations with Pakistan (together with such developments as a large new Soviet credit; new Bloc-Afghan scientific, technical, and cultural exchange agreements; and expanded Soviet military assistance to the Afghan army) provided the Bloc with some of its most definite economic offensive achievements during 1961. Shortly after the Afghan-Pakistani frontier was closed to all trade in September, the USSR purchased a large part of Afghanistan's important fresh fruit crop. The USSR also announced measures to facilitate the transit of Afghan trade through Soviet territory at subsidized rates. These measures were combined with strong Soviet propaganda and political support for Afghanistan on the Pushtunistan issue. In October a new Soviet economic assistance agreement was signed that provided two credits totaling \$196 million under favorable terms. The new credits raised the total of Soviet economic aid to that country since 1954 to more than \$400 million.

The USSR continued to deliver equipment, including T-54 tanks, under its military aid program in Afghanistan. Long-term training of Afghan military cadets in the USSR increased, and a number of high-ranking Soviet military advisers arrived following a visit by Soviet Marshal Sokolovskiy during October. The implementation of a number of cultural and scientific exchange agreements resulted in a considerable number of cultural, scientific, educational, and athletic exchanges

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during the latter part of 1961, including a reported Soviet offer of about 500 scholarships for 3-year and 4-year courses in Russian-language study in the USSR. Other recent developments have included a continued high level of activity by Soviet experts in preparing the Afghan Second Five Year Plan, a Soviet-Afghan agreement on a number of important economic development projects in northern Afghanistan, the Soviet presentation of an atomic reactor to the Afghan Government, and a Czechoslovak agreement to construct and equip an arms factory near Kabul.

The bitter exchanges between Moscow and Cairo that began in May, following Khrushchev's disparaging remarks to a UAR delegation then visiting the USSR, caused a rift between the two countries that continued through the rest of the year. Soviet charges that the UAR was discriminating against Syrian and Egyptian Communist Parties and failing to properly acclaim Bloc economic aid projects were countered by Cairo's claim that local Communists were agents of the USSR and allegations that Moscow was dissatisfied with the UAR's policies of independence and neutrality. Moscow's precipitate recognition of Syria further exacerbated UAR-Soviet relations. In spite of these irritants the USSR continued to provide important economic assistance to the UAR for the construction of the Aswan High Dam and other projects and also continued to deliver arms and military equipment. No new contracts are known to have been signed for industrial projects included in the 1958 credit agreement, but it is estimated that about \$50 million of the \$100 million credit for the first stage of the Aswan High Dam had been contracted. Although progress on the dam was slightly behind schedule, it was anticipated that it could still be completed on time. Trade between the UAR and the Bloc declined slightly during the first half of 1961 compared with the comparable period for 1960. This decline, however, reflects a decrease in cotton prices rather than a drop in the volume of cotton exported to the Bloc.

On 28 September a Syrian army coup dissolved Syria's union with Egypt, and only a few hours later the USSR became the first major power to recognize an independent Syria. No new credits were extended to Syria by the Bloc during 1961, and in the latter half of the year only one new project was begun by a Bloc country -- work in connection with the Ghab reclamation project (in the Orontes Valley) that was awarded to Bulgaria. It is estimated that during the last 6 months of 1961 there were 415 Soviet Bloc economic and 200 military technicians in Syria. The volume of Syria's imports from the Bloc declined slightly during the first 8 months of 1961, but the Bloc continued to be a major market for Syria's cotton, taking 40 percent of all cotton exported during the 1960/61 season. As the year ended it appeared that, in spite of manifestations of more favorable relations with the West, Syria would continue to maintain strong economic relations with the Bloc,

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both to sustain its announced "neutral" position and also as a result of Bloc entrenchment as its sole supplier of arms.

The Bloc's influence in Iraq became stronger during the last half of 1961 as a result of such developments as Soviet support for Iraq's claim to Kuwait, Iraq's dispute with the Western oil firms, and the near-completion of Iraq's changeover to Soviet military materiel. In consequence, Kassem became more lenient toward local Communists and awarded development projects to the Soviet Bloc against the better judgment of his subordinates. Although no additional credits for economic assistance were extended to Iraq by any Soviet Bloc country during 1961, a \$50 million arms agreement was obtained from the USSR by an Iraqi mission that visited Moscow late in the year. Work on Bloc economic development projects in Iraq continued at a slow pace, with only one project, a radiobroadcasting station, completed during the period under review. Bloc efforts to speed up implementation resulted in an increase in the number of Bloc technicians in Iraq during the last few months of the year. Iraqi imports from the Bloc during 1961 are expected to have risen, mainly as a result of the increased exports of machinery and equipment from Bloc countries. Iraqi exports to the Bloc remain small.

Any limited gains that the USSR may have achieved in Pakistan during the first several months of 1961 through overtures seeking to exploit Pakistani neutralist sentiment appear to have been largely negated during recent months. US reassurance to President Ayub during his visit to Washington in July and Soviet support for Afghanistan on the Pushtunistan issue and support for India over Kashmir, together with the resumption of Soviet nuclear testing and Soviet criticism of Pakistan as an example of a colonialist-dominated state, have all resulted in disillusionment and resentment regarding Soviet objectives. No new Bloc aid has been extended. Cultural exchanges have been few, and there was a slight decline in the volume of trade recorded during 1961. The arrival of 25 Soviet petroleum technicians to begin oil exploration activities under the \$30 million agreement that was concluded with the USSR in the spring constituted the Bloc's only major economic activity during the period under review.

In Yemen the Bloc continued to maintain a considerable degree of influence, especially in view of traditional Yemeni antipathy toward Western elements and because of the continued success of the Bloc in portraying itself as a generous and disinterested benefactor of the Yemeni people. No new credits were extended from the Bloc to Yemen during 1961. In August the USSR and Yemen initialed an agreement for the construction of the Hudaydah-Ta'izz road, but no final agreement has yet been reported. Nor have final agreements been announced on other Soviet aid offers, including a proposal for Aeroflot

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assistance in the organization of a civil airline. At the end of November the Chinese Communists claimed to have completed the asphalt-ing of the Hydaydah-San'a road and also were reported to have offered to initiate a cotton-raising scheme to supply cotton for a textile plant they are scheduled to build at San'a in 1962. During the latter part of 1961 the number of Bloc technicians in Yemen declined to about 640, of which about 500 were Chinese Communists. Soviet-Yemeni trade also declined, notably the barter of Yemeni coffee for Soviet sugar. The decline in Soviet trade was offset by increases in Yemeni trade with the Satellites, and in general Yemeni trade continued to be oriented toward the Bloc.

#### Africa

During the second half of 1961 the Bloc negotiated an economic aid agreement with Sudan for the first time and expanded aid and trade agreements with a number of other African countries, most notably Ghana. On the other hand, a substantial Bloc offer was rejected by the Congo (Leopoldville). Furthermore, Bloc relations with Guinea, where there is the greatest concentration of tangible Communist aid on the African continent outside of the UAR, became snarled by Guinean charges of Bloc involvement in an alleged local plot against the government -- Guinea ordered the Soviet Ambassador out of the country, and early in 1962 Soviet Deputy Premier Mikoyan flew to Conakry to smooth over the situation.

Sudan accepted a \$22 million Soviet credit, partly as a means of demonstrating its professed neutralism, but it continued to rely principally on the West for foreign help in financing economic development. Ethiopia and the USSR finally agreed on the construction of a \$12 million oil refinery, to be financed under a \$100 million Soviet credit extended in 1959, of which only about \$2 million had been drawn. Tunisia accepted \$38 million worth of new Bloc credits, but it continues to rely principally on the United States for foreign economic assistance.

Ghana received \$93 million in new Bloc credits, which President Nkrumah had solicited during an extended visit to Communist capitals in the summer of 1961; and even more credits may have been negotiated during the period but not announced specifically. With a total of \$182.1 million in identifiable Bloc credits, during the last 6 months Ghana far exceeded Guinea as the major beneficiary of Bloc aid commitments in Africa.

Mali, which received substantial Bloc credits during the first half of 1961, got only \$7.5 million in new credits during the second half. The Somali Republic, also a major earlier recipient, got no new credits.

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Trade with the Bloc continued to grow, but there were no major shifts, except for an erratic drop in Ghanaian exports to the Bloc -- a situation which will subsequently be regulated by long-term Soviet commitments (to purchase cocoa) that were negotiated during the second half of 1961. Bloc shipments of military items continued at a substantial level, notably to Morocco for transshipment to the Algerian rebels.

#### Asia

During the last 6 months of 1961, political and economic instabilities in a number of Asian countries continued to provide the Bloc with opportunities for economic advances, especially in Nepal and Indonesia.

India's political, cultural, and economic relations with the USSR and its European Satellites continued to grow during the second half of 1961, whereas relations with Communist China continued to deteriorate. Czechoslovakia was the only Bloc country to extend additional aid during the period under review, and there was little change in the volume and character of Bloc trade, but considerable progress was made on project commitments. A potentially sensitive aspect of the Bloc economic offensive in India continued to be the Soviet penetration of India's petroleum and aircraft industries. In addition, India concluded agreements for cooperation in the peaceful uses of nuclear energy with the USSR and Hungary. Several project contracts, dealing principally with India's heavy machinery industry, were signed with Czechoslovakia, Hungary, East Germany, and Poland under existing basic aid agreements.

The most significant event in Burma's relations with the Sino-Soviet Bloc during the last half of 1961 was the signing in December of a protocol committing for project use the \$84 million Chinese Communist credit of January 1961. The three Soviet "gift" projects were formally turned over to the Burmese Government in July. There is evidence of increased Bloc interest in offering scholarships to Burmese students. Efforts were exerted to reduce Bloc clearing account deficits.

Political unrest in Nepal and the willingness of King Mahendra to regard Bloc aid as a substitute for financial reform have made this country an inviting target for Bloc economic offers. Grants, primarily from Communist China, amounting to \$55 million have been extended to Nepal, nearly \$14 million during the last 6 months of 1961. A new grant from Communist China is for the construction of a motor road. Agreement was reached also on construction contracts for a number of other projects under earlier grants. Nepal had previously obtained considerable local currency assistance from Communist China, and the USSR has now agreed to provide about \$4 million to cover the local costs of its aid projects.

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Severe domestic unrest has led government officials in Ceylon to intensify efforts to implement Bloc aid programs and at the same time accelerate efforts to establish state ownership of enterprise. No new Bloc aid has been received, but several implementation contracts on earlier credits were signed. Several projects, including a rolling mill, a tire factory, and a textile mill, are scheduled to be started within the next several months. Moreover, a petroleum purchase contract will permit the USSR to enter the Ceylonese market. Most of Ceylon's sheet rubber exports in 1962 are expected to be delivered to Bloc buyers.

Cambodia's economic relations with the Bloc during the last half of 1961 remained generally unchanged. Politically, however, Cambodia veered in the direction of a greater accommodation with the Bloc. Modest progress was made in existing Bloc projects, and the gift items promised to Prince Sihanouk during his 1960 visit to the Bloc have been delivered. Additional Cambodian students departed for study in Soviet Bloc countries.

The expansion and intensification of Sino-Soviet Bloc economic and political relations with Indonesia continued during the last 6 months of 1961. The Bloc continued to give strong political support to Indonesia on the West New Guinea issue, and in turn Indonesia sided with the Bloc on such international issues as Berlin. New economic credits amounting to \$60.5 million brought the total of Bloc economic and military aid to \$1.3 billion. A series of high-level Soviet Bloc missions to Indonesia resulted in \$36.5 million in credits from Poland and \$24.0 million in credits from Hungary. All these credits covered industrial projects ranging from coal mining to the development of a pharmaceutical industry. Progress continued on Bloc aid projects already underway, although in a number of instances very slowly. In addition to the new economic credits, Bloc deliveries of military equipment were an outstanding development during the period. Indonesia acquired 10 Tu-16 medium jet bombers; a wide variety of army, navy, and air force equipment and arms; 8 Soviet motor torpedo boats; and 10 river gunboats. At the end of September, Soviet Admiral Chernopay arrived in Djakarta to head a military training mission that may eventually include 300 Soviet military personnel and technicians. At least 390 Indonesian military personnel were estimated to be receiving training in the Bloc as of the end of the year.

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